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Farm Bill Primer: Support for the Dairy Industry

The Dairy Margin Coverage (DMC) program was enacted in the 2018 farm bill (P.L. 115-334, §1401) to support milk producers. It replaces the 2014 farm bill's Margin Protection Program (P.L. 113-79, §1403). Prior to 2014, the U.S. Department of Agriculture (USDA) purchased dairy products to support milk prices. Many dairy stakeholders believed the buying of products failed to provide adequate support for producers. Congress created DMC to allow milk producers to select a guaranteed *margin*—the difference between the USDA national all milk price and a calculated feed cost—that covers their milk production history.

The Further Continuing Appropriations and Other Extensions Act, 2024 (P.L. 118-22, §102), extended DMC through December 2024, and the American Relief Act, 2025 (P.L. 118-158, §4101), extended DMC through December 2025.

Milk producers may request that Congress, as it considers farm bill reauthorization, amend DMC or other dairy programs that cover producers who are often subject to volatile market prices for milk and feed.

Dairy Margin Coverage Basics

DMC allows participating milk producers to buy a guaranteed margin for their milk production. For example, if the margin—all milk price minus feed cost—amounted to $9.00 per hundredweight (cwt; 100 pounds) of milk for a month, producers who selected $9.50 margin coverage would receive a $0.50 per cwt DMC payment on covered production. Under DMC, producers may select margin coverage from $4.00 per cwt up to $9.50 per cwt for annual milk production of 5 million pounds or less (Tier I). For milk production over 5 million pounds (Tier II), the margin coverage tops out at $8.00 per cwt. The $4.00 margin, or catastrophic coverage, is free for all participating milk producers. For margin coverage above $4.00, producers pay increasing premium rates as specified in statute (**Table 1**).

A participating milk producer must have an established production history—based on the highest milk marketings (milk sold) in 2011, 2012, or 2013—with USDA's Farm Service Agency (FSA) and pay an annual administrative fee of $100. The fee is waived for beginning, limited resource, socially disadvantaged, or veteran producers. Each year, dairy producers participating in DMC choose a margin coverage level and the share of their milk production history to cover—from 5% to 95%—and receive DMC payments for months in which the margin coverage is triggered.

The total premium amount that producers pay for margin coverage above $4.00 per cwt is a product of the margin level premium that is set in statute and the share of production history that the producer selects.

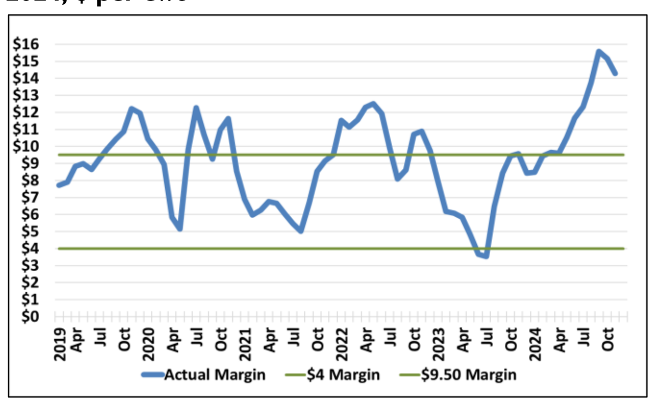
Table 1. DMC Premium Rates, $ per cwt

Margin	Tier I ≤ 5 million lbs.	Tier II > 5 million lbs.
$4.00	$0	$0
$4.50	$0.0025	$0.0025
$5.00	$0.005	$0.005
$5.50	$0.030	$0.100
$6.00	$0.050	$0.310
$6.50	$0.070	$0.650
$7.00	$0.080	$1.107
$7.50	$0.090	$1.413
$8.00	$0.100	$1.813
$8.50	$0.105	NA
$9.00	$0.110	NA
$9.50	$0.150	NA

Source: Agricultural Improvement Act of 2018 (P.L. 115-334).

FSA calculates and reports the DMC milk-feed margin each month (**Figure 1**). If margin payments were triggered, producers would be paid for a month of covered milk production history. Payments under DMC are subject to sequestration reductions of 5.7% in 2021-2025.

Figure 1. DMC Milk Price-Feed Cost Margins, 2019-2024, $ per cwt



Source: CRS from USDA, Farm Service Agency (FSA) data.

Notes: Actual margins below insured margin coverage result in payments to producers. cwt = hundredweight, 100 pounds.

Between the January 2019 implementation of the DMC program and December 2024, margin payments have been triggered in 38 months for producers who opted for a $9.50 margin. Producers selecting margin coverage under $9.50 have received payments in some of those months, particularly in 2021 and 2023. Payments on the $4.00 catastrophic margin triggered in June and July 2023 for the first time under DMC.

Excluding 2020, on average, 71% of dairies with established production history participated in DMC, and

71% of their milk production was covered. In 2019-2024, payments under DMC totaled nearly $3.3 billion (**Table 2**).

Table 2. Dairies Enrolled in DMC, Covered Milk Production, and Total Payments

Year	Dairies number (% total)	Covered Milk Production billion lbs. (% total)	Payments to Producers ($ millions)
2019	23,489 (71.9%)	178.6 (65.0%)	$451
2020	13,537 (44.1%)	121.3 (46.3%)	$234
2021	19,115 (67.5%)	162.6 (66.9%)	$1,186
2022	17,992 (69.5%)	156.3 (69.4%)	$84
2023	17,130 (73.8%)	153.7 (74.8%)	$1,291
2024	15,715 (73.3%)	150.9 (79.0%)	$37

Source: USDA, FSA, DMC Program Enrollment Information, updated January 6, 2025.

Note: Percentages are the share of dairies with established production history and the covered share of their established milk production.

In addition to DMC, milk producers may also purchase Livestock Gross Margin-Dairy Cattle and Dairy Revenue Protection insurance policies offered by the Federal Crop Insurance Program to manage risk.

Dairy Margin Coverage Adjustments

USDA made adjustments to DMC in December 2021 to use the 100% premium alfalfa price instead of a blended alfalfa price in the feed cost calculation, resulting in a higher feed cost, tighter margins, and higher DMC payments compared with the prior feed formula. USDA paid dairy producers the difference in the two margin calculations retroactive to January 2020 for months margin payments were triggered.

The Consolidated Appropriations Act, 2021 (P.L. 116-260), authorized supplemental DMC payments based on actual 2019 milk marketings. Under this provision, producers participating in DMC in 2021 who had actual milk marketings of less than 5 million pounds could increase their production history. The increase was the difference between actual 2019 marketings and their established production history. If triggered, they received an additional DMC margin payment on 75% of the difference. For the additional production history, producers paid the Tier I premium and could cover this additional milk production history for 2021-2023. The adjusted production history was extended through 2024 and 2025.

Other Dairy Provisions

The 2018 farm bill and enacted extensions reauthorized the Dairy Forward Pricing Program (DFPP; 7 U.S.C. §8772), the Dairy Indemnity Payment Program (DIPP; 7 U.S.C. §§4551 et seq.), and a provision in the Dairy Promotion and Research Program (DPRP; 7 U.S.C. §4504(e)(2)).

DFPP allows milk producers and milk handlers/processors to negotiate forward contracts for milk used in Class II (soft products), Class III (cheese), or Class IV (butter/powder) products that are pooled on Federal Milk Marketing Orders (FMMOs). Class I fluid milk may not be forward contracted. Handlers pay the agreed on contract price instead of the FMMO calculated minimum blend price.

DIPP makes payments to dairy producers who have to dispose of raw milk because of chemical (e.g., PFAS), radiation, or pesticide contamination. In 2021, DIPP regulations (7 C.F.R. §§760.1-760.33) were amended to give USDA the discretion to indemnify producers for the depopulation of cows affected by long-term contamination.

The DPRP provision reauthorizes the use of funds to develop international markets in the generic promotion and research programs (dairy checkoff) that is producer-funded by a $0.15 per cwt assessment on milk production.

The 2018 farm bill established the Milk Donation Reimbursement Program (MDRP) to pay certain costs of fluid milk donations that producers, processors, and cooperatives make to food banks and feeding organizations. The donation program received mandatory funding of $9 million for FY2019 and $5 million annually for FY2020-FY2023. The Dairy Donation Program, which is similar to the MDRP, was created by the Consolidated Appropriations Act, 2021, and funded at $400 million in response to disruptions caused by the COVID-19 pandemic. This program reimbursed certain costs for dairy product donations and was authorized through September 1, 2023.

In addition, the 2018 farm bill amended the FMMO formula for the Class I skim milk price. During the pandemic, the change resulted in lower minimum prices that milk handlers paid to producers (see CRS Report R45044, *Federal Milk Marketing Orders: An Overview*). In January 2025, in a referendum vote on various changes to FMMOs, milk producers approved a provision to restore the pre-2018 farm bill formula.

Dairy Policy in the Next Farm Bill

DMC usually is viewed favorably by dairy stakeholders as an improvement in risk protection, especially for Tier I production. Stakeholders noted the effectiveness of DMC in House and Senate Agriculture Committee dairy hearings.

Farm bill proposals in the 118th Congress included provisions supported by dairy stakeholders. The Farm, Food, and National Security Act of 2024 (H.R. 8467) and the Rural Prosperity and Food Security Act of 2024 (S. 5335) would have updated milk production history to the highest level of 2021, 2022, or 2023. The bills would have increased the level of Tier I covered milk production history to 6 million pounds, up from 5 million pounds. Such proposed changes could have raised the projected cost of a farm bill.

In addition, the House bill would have reverted the FMMO Class I skim milk formula to the pre-2018 farm bill formula. The Senate bill would have amended the 2018 milk donation program to include dairy products, similarly to the pandemic donation program.

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